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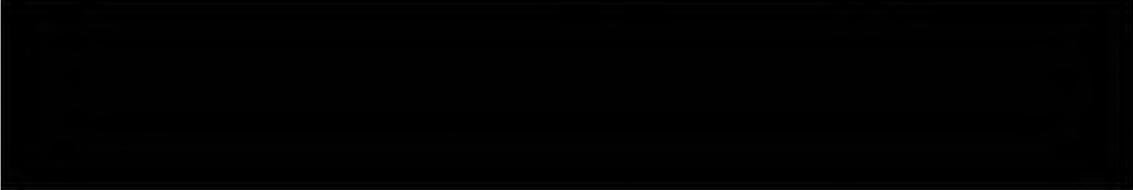
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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 66
31 AUGUST to 6 SEPTEMBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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Substantial Korean forces, trained and equipped in Manchuria by the Chinese Communists, are reported entering the northern puppet Republic as reinforcements for the expanding Peoples' Army (p. 3).

While the anti-Nationalist coup in Yunnan has not yet placed that province in the Communist camp, it is believed that the authorities in control of Kunming are at least inclined towards accomodation with the Chinese Communists (p. 3).

Recent statements by Ho Chi Minh's resistance government in Indochina indicate that the days when a compromise settlement for "independence" within the framework of the French Union might have been possible are now past (p. 5).

Combined Karen-Kachin military activities in the Shan States of northeast Burma are meeting little resistance and the possibility exists that a united minorities' front may be formed in opposition to the Burmese Government (p. 6).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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KOREA

Peoples' Army reinforced--A large-scale movement into northern Korea by Korean troops, trained and equipped by the Chinese Communists in Manchuria, appears to have developed during July and August and probably is continuing. Recent reports state that twenty to thirty thousand troops (with equipment including captured US trucks and small arms) entered northern Korea through Sinaiju in a 15-day period. Rumors in northern Korea now place the number of Chinese Korean troops in the Peoples' Army at 50,000. While this number is believed exaggerated, it is probable that the Peoples' Army is presently in the process of expansion from about 56,000 to a reported goal of 100,000. "B"

The full significance of the expansion of the Peoples' Army and its continuing concentration near the 38th Parallel is not clear. Although the expansion of the Peoples' Army might indicate preparations for an early invasion of southern Korea, there is some evidence that the rapid expansion of southern Korean forces, the police disruption of the Communist underground in southern Korea, and unrest in northern Korea have forced the present expansion of the Peoples' Army as a defensive measure.

CHINA

"Revolt" in Yunnan--Press reports from Hong Kong, attributed to LUNG Yun, former Yunnan governor, state that LU Han, the present governor of Yunnan and a step-brother of LUNG, has issued a manifesto which declares his opposition to CHIANG Kai-shek; has reportedly established independent military control over the Kunming area, and will seek a local settlement with the Chinese Communists. "A"

LU's action in "rebelling" against Nationalist authority at this time is apparently in answer to increased Nationalist pressure on Yunnan, a rear area, to quit straddling the fence in the Nationalist-Communist showdown. Areas such as Yunnan, which served as rear bases

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for the war against Japan, have more recently been thrust into prominence in the Nationalist's struggle against the Communists. Nationalist functionaries, including CHIANG Ching-kuo, one of the Generalissimo's sons, have lately been visiting the province in an attempt to convince LU not to desert the Nationalist cause. Such renewed Nationalist interest is not welcomed in the back area of Yunnan, where there is little evidence of either the desire or the intention to oppose the Communists' manifest "mandate of heaven".

At present there are in Yunnan at least four separate military forces, the realistic bases of political power in China, each opposing the other: Governor LU Han's Provincial troops number between ten and fifteen thousand; the Nationalist 26th Army has a strength of from sixteen to twenty thousand; Communist guerrillas, bandit and dissident forces total some forty to fifty thousand; while various minor forces, loyal to ex-Governor LUNG, probably amount to no more than three thousand. The Communist guerrillas and bandit forces exercise almost complete control over about one-third of the province and a lesser degree of control over another third. Provincial authorities have firm control over the remaining third, mostly around Kunming.

Reports indicate that LU's regime has lately been gaining in popularity, following a fairly successful "bandit suppression" campaign and an anti-Nationalist stand which is popular with the independent Yunnanese. Governor LU has issued his own currency, has brought large numbers of Nationalist troops in the province under his dominance, and has discouraged the entry of new Nationalist forces.

It is not certain that LU's present action was carried out in the interests of ex-Governor LUNG Yun, who, since his CAT-engineered escape from house arrest in Nanking, has thrown his lot with the Communists and has denounced CHIANG, for which he has had the satisfaction of being termed "a great democrat" in the Communist press. Although LUNG has continued to interest himself in Yunnanese affairs, it is doubtful if his actual power in the province is anywhere as extensive as it once was and apparently his authority has been largely displaced by LU Han's. For this reason, accurate evaluation of the Hong Kong dispatches is difficult. If, however, LU and his cohorts believe that the Nationalists cause is doomed, it is probable that they soon will seek accommodation with the Communists. However, late dispatches state that the situation in Kunming is quiet but tense and that LU Han has departed for Chungking to confer with CHIANG Kai-shek, thus indicating that a reconciliation may still be possible.

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INDOCHINA

Hard line from Ho--Although French press reports of Vietnamese broadcasts admitting double-dealing in 1946 have not been substantiated by recent resistance statements, Ho Chi Minh's regime has taken an unprecedentedly defiant tone in its latest propaganda efforts. Timed to coincide with the first meetings of French delegates and anti-Ho Vietnamese in Saigon to implement the terms of the Bao Dai-Auriol March 8 Agreement, latest resistance broadcasts appear to be an attempt to deny the assertion of Bao Dai's followers that the Emperor, in the course of his negotiations with the French, has won more concessions for Vietnam than were embodied in the earlier agreements signed between Ho and the French.

More than the direct "we did better" statement, the Ho regime now offers no concessions to the French and demands none. "Independence" is defined by the resistance radio as positively excluding domination of any kind, direct or indirect, economic, financial or military. On the question of "independence" within the French Union, regarding which Ho has been either conciliatory or non-committal in the past, the resistance radio now takes a strong negative position. "France," the broadcasts declare, "has definitely sided with world reactionary imperialism." That France, "beaten by a former colonial people, living from hand to mouth on foreign loans, and too weak even to defend its own soil," should presume to "advise" any country is a notion held up to ridicule.

Whether the hardening of Ho's attitude is a result of the appointment of Pham Van Dong--possibly a Communist and certainly one of the most forceful and capable of the Vietnamese revolutionaries--to the posts both of Vice-President and of Chairman of the National Defense Council is still a matter for conjecture. It is suspected, though without confirmation, that a factor of equal importance in the hardening of the resistance government's attitude is the record of Communist victory in China.

Whether this Communist triumph has brought about a USSR orientation in Vietnam is not yet clear. The Vietnam radio has been at some pains to explain that the certainty of the Republic of Vietnam's eventual victory long antedates sweeping Chinese Communist Army successes, and adds: "the southward advance of the Chinese Liberation Army may have a favorable bearing upon the Vietnam situation, but it also will create many difficulties." Vice-President Pham Van Dong, in turn, has declared that "crisis has broken out in a number of imperialistic countries,

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while the democratic movement is gaining strength everywhere"--a comment which conforms with the Communist party line--but has added at the same time (echoing Ho's favorite maxim) "However, we only rely on ourselves for winning the war." Ho himself has denied having negotiated with the Chinese Communists in order to get heavy mortars for his forces, but has admitted that he would accept such weapons if they were offered him. Nonetheless, Ho has expressed the opinion, contrary to Mao Tse-tung's view, that neutrality is both possible and desirable between the US and the USSR. Meanwhile, there is some reason to suppose that Ho's present repudiation of the French Union may cause confusion in Communist circles, in view of the fact that, as recently as 31 August, Radio Moscow endorsed a Communist-line publication calling for a Franco-Vietnamese conciliation within the framework of the French Union.

BURMA

Move towards minority coalition--The combined Karen-Kachin force which recently captured Taunggyi and Lashio, capitals of the Southern and Northern Shan States in northeastern Burma respectively, is now reported to have occupied Kengtung, capital of the easternmost Shan state. No effective opposition to this rebel force is likely to develop in the Shan States in the near future; first, because there are few, if any, trained Shan troops and second, because it is questionable if Shan troops could be used against the Karen and Kachins in any case. There are only a few Burman troops in the Shan States and it is doubtful if many more can be spared from southern Burma.

Although the first conclusion to be drawn from this Shan States campaign is that the Karen rebellion is still strong, of more significance is the possibility that the campaign indicates the development of greater unity among the ethnic minorities in opposition to the Burmese Government. It has been reported by a US Embassy official on the spot that despite Shan resentment over current Karen operations, Karen, Kachin and Shan leaders are unanimous in their low opinion of the Government and desire for greater autonomy. Leaders of these three peoples are reported to be considering the formation of a Federation of Hill Peoples and the presentation to the Government of a unified demand for greater self-government, including the recognition of a separate Karen state. It is entirely possible that a loose working arrangement along these lines, and including the Chins, will be effected. Government rejection of such a united minorities' proposal, when and if put forward, would incur the risk of an increase in insurrectionary activity simultaneous with a sharp decline in military potential.

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